

OFFICE OF FINANCE PROGRAMS
COMMUNITY DEVELOPMENT BLOCK GRANT
ECONOMIC DEVELOPMENT PROGRAM

(CDBG-ED)

ANNUAL FINANCIAL STATUS REPORT
FISCAL YEAR 2011

Submitted by:

Maryland Department of Business and Economic Development

As of June 30, 2011

COMMUNITY DEVELOPMENT BLOCK GRANT
ECONOMIC DEVELOPMENT PROGRAM

(CDBG-ED)

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**COMMUNITY DEVELOPMENT BLOCK GRANT ECONOMIC DEVELOPMENT PROGRAM
(CDBG-ED)**

History and Program Description

The US Congress created the Community Development Block Grant Program (CDBG) as part of the Housing and Community Development Act of 1974. The Act authorized the US Department of Housing and Urban Development (HUD) to manage the Program.

The CDBG Program began as a community development resource aimed at housing rehabilitation and neighborhood revitalization projects. During the 1980s, HUD promoted "decentralization" of program administration and offered States an opportunity to "take over", or manage their own CDBG programs. HUD also authorized the use of CDBG funds for economic development purposes.

Maryland established its program and started receiving annual awards of CDBG funds from HUD in 1987. The Department of Housing and Community Development (DHCD) was designated to be the primary State Agency responsible for administration of CDBG funds. The Department of Business and Economic Development (DBED) entered into a Memorandum of Understanding (MOU) for use of a portion of CDBG funds. Consequently, Maryland's CDBG program is administered jointly by DHCD and DBED. Approximately 25% of the State's annual CDBG award is allocated to DBED for use in economic development projects.

The Department's goal for use of CDBG economic development funds is "job creation". HUD has mandated that job creation resulting from the use of CDBG economic development funds must be targeted to low and moderate-income citizens in non-urban areas of the State. Funds are disbursed to local jurisdictions in the form of a conditional grant. The local jurisdiction may lend the funds to a commercial enterprise or directly use the funds for infrastructure improvements needed by businesses or other eligible projects. Funds can be used for land acquisition, site improvements and the purchase of fixed assets such as new equipment.

The Department focuses the use of funds on commercial and industrial activities, like manufacturing, distribution and commercial revitalization, while DHCD directs funds to community development activities, like housing rehabilitation for low and moderate-income communities.

Program Performance Since Inception

Program funds are used for conditional grants to eligible local governments in support of economic development projects that provide direct job creation and/or address slum and blight conditions. In some projects, CDBG funds are conveyed in the form of a loan from the local government to a business. Since fiscal year 1988, DBED has provided approximately \$47 million in financing assistance to approximately 123 economic development projects in Maryland.

CDBG-ED funds that are used for loans to businesses provide a unique opportunity to assist local governments and small businesses. DBED can allow local governments to retain loan payments to help capitalize local revolving loan funds. The Department has selectively used this capability to provide local governments financing resources to assist small businesses in their communities or to help local governments participate in supporting major project initiatives. Since fiscal year 1988, DBED has authorized 11 local governments to retain approximately \$4.1 million of CDBG-ED repayments for initial capitalization of local revolving loan funds. During fiscal years 2009 and 2010, two local governments, Allegany County and Kent County, respectively elected to discontinue operation of their Revolving Loan Fund. The following local governments operate CDBG-ED funded revolving loan funds:

DEPARTMENT OF BUSINESS AND ECONOMIC DEVELOPMENT

Local Government	Amount	Fund Origination
Aberdeen	170,000	March 10, 1988
Havre de Grace	392,500	December 15, 1992
Garret County	500,000	May 13, 1998
Denton	440,000	February 11, 1990
Federalsburg	250,000	November 12, 1997
St. Mary's County	500,000	October 5, 1998
Cecil County	400,000	December 5, 1997
Somerset County	400,000	September 30, 1998
Wicomico County	250,000	June 30, 1993

In addition, the Department has used CDBG-ED funds for direct assistance to two local Non-Profit Corporations that operate Revolving Loan Funds that specifically serve the needs of very small businesses known as Micro-Enterprises. Maryland Capital Enterprises (MCE) in Wicomico County and Micro-Works in Garrett County have used \$150,000 and \$100,000 respectively of CDBG-ED funds for operating expenses, loans and technical assistance to this sector of Maryland's economy.

Program Performance for Fiscal Year 2011

During fiscal year 2011, the Department accumulated approximately \$4.9 million of CDBG-ED program funds from a SFY10 fund balance, SFY11 fund balance, loan payments and recaptures. The Department did not have a sufficient volume of "ready to proceed" eligible economic development projects to fully use these funds. The condition of our local and national economy, and corporate strategy to delay, and in some cases, abandon development or expansion projects, are factors in the slower pace of CDBG economic development funds usage. Given these economic conditions, the Department transferred \$2.0 million of economic development funds to the community development category at DHCD to ensure compliance with federal Timeliness Expenditure of Funds policy.

Also during fiscal year 2011, Program funds totaling \$1,400,000 were used to support three (3) economic development projects that will create and retain approximately 120 jobs and stimulate revitalization and small business expansion in a local business district. These approvals will facilitate approximately \$1.1 million in private capital investment. These projects are scheduled to settle in fiscal year 2012. The Department is working with several prospective economic development projects in early stages of formation. The Department anticipates that these initiatives will continue to progress into the project implementation stage.

Projected Program Performance for Fiscal Year 2012

The allocation of CDBG-ED funds to the Department for fiscal year 2012 is estimated to be \$1,834,990, and is anticipated to be received by September 1, 2011. Federal rules for the program require 100% of the annual allocation and program income to be under contract to eligible economic development projects within 15 months of receipt. The fiscal year 2012 estimated allocation of \$1,834,990, the balance of the fiscal year 2011 allocation of \$1,534,423 equal total CDBG-ED funds in the amount of \$3,369,413 available to support eligible economic development projects. DBED's current pipeline for CDBG-ED includes six (6) economic development projects that may utilize approximately \$3.0 million of this amount. DBED is actively working to identify additional eligible projects. The Department's strategy for use of CDBG-ED funds will emphasize support of local government economic development initiatives that encourage commercial and industrial growth, commercial revitalization, and development and growth of small businesses.

Approved Report

7/1/2010 Through 6/30/2011

<i>Approved</i>	<i>Client Name</i>	<i>Loan</i>	<i>Loan</i>	<i>Guarantor</i>	<i>Loan</i>	<i>County</i>	<i>Total Project</i>	<i>Trainees</i>	<i>New</i>	
<i>Retained</i>										
<i>Date</i>		<i>Amount</i>	<i>Percentage</i>	<i>Guarantee</i>			<i>Costs</i>	<i>Pro /</i>	<i>Jobs</i>	<i>Jobs</i>
<i>CDBG Cond. Grant</i>										
3/25/2011	Queen Anne's County, County	180301	\$500,000.00	0.0%	\$0.00	Queen Anne's	\$1,552,700.00	N/A	60	0
3/31/2011	Town of Hancock	12520101	\$600,000.00	0.0%	\$0.00	Washington	\$600,000.00	N/A	60	0
6/17/2011	Cambridge, City of	300301	\$300,000.00	0.0%	\$0.00	Dorchester	\$314,000.00	N/A	0	0
Totals:	3 Loans		\$1,400,000.00		\$0.00		\$2,466,700.00	0	120	0
Grand Totals:	3 Loans		\$1,400,000.00		\$0.00		\$2,466,700.00	0	120	0